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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of
1997 Annual Access Tariff Filings

CC Docket No. 97-149

REBUTTAL TO OPPOSITIONS TO
DIRECT CASE OF THE SBC COMPANIES

SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL

ROBERT M. LYNCH
DURWARD D. DUPRE

One Bell Center, Room 3524
St. Louis, MO 63101
(314) 235-2513

NANCY C. WOOLF

140 New Montgomery Street, Room 1522A
San Francisco, California 94105

(415) 542-7657

Their Attorneys

Date: September 23, 1997

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SUMMARY

AT&T and MCI attempt to substitute their own BFP forecasts. These forecasts are inaccurate and do not reflect necessary adjustments. AT&T attempts to impose a prospective rate adjustment based on prior year's forecasting deviations from actual results. No such true up is permissible under Commission rules, nor is any justification advanced for such an adjustment.

Our equal access amortization adjustment should not include revenue growth, as was adequately explained in our Direct Case.

AT&T's assertion that the OB&C exogenous cost charge should be reduced by $4.5 million should be rejected for two reasons: First, excluding invoice-ready message volumes is reasonable when message volume is not a significant component of the cost of invoice-ready service. Second, AT&T's calculation overstates the impact of including invoice-ready messages.

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Southwestern Bell Telephone Company (SWBT), Pacific Bell (Pacific), and Nevada Bell (Nevada) (collectively, the SBC Companies) pursuant to the Designation Order[1] released July 28, 1997, hereby file their Rebuttal to Oppositions to Direct Case. The Commission should not now require that forecasting be perfect, or to require true ups for any forecast submitted by a carrier. The effect of such a rule, which AT&T evidently advocates, is to increase the regulatory burden on carriers and the Commission, while moving opposite to the procompetitive, deregulatory goal Congress articulated in the Telecommunications Act of 1996. If such precision is desired, the solution is to base rates on actual historical BFP, rather than on a forecast based on actual results.

A. The Forecasts Generated By AT&T And MCI Are Inaccurate

AT&T purported to use a trend analysis using ARMIS 43-01 data to determine actual tariff period BFP revenue requirements and then calculated year over year changes to

[1] 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Order Designating Issues for Investigation - Memorandum Opinion and Order on Reconsideration (DA 97-1609) (rel. July 28, 1997, Com. Car. Bur.) (Designation Order). The filing dates were extended in Public Notice, Common Carrier Bureau Grants United

generate a multiyear forecast of BFP requirements.[2] MCI also submitted 3 iterations of a BFP forecast. Both carriers have omitted key adjustments for Other Billing and Collection Expense (OB&C) and Account 4310 rule changes.

SWBT's direct case examined forecasts of BFP revenue requirements and compared them with actual amounts. The comparisons made by SWBT showed that its forecasts were, for all relevant tariff periods, less than actual amounts. As SWBT explained in its direct case, the forecasts were based on a "bottoms-up" approach in which budget data at the account level is utilized and allocated to interstate and the access service categories. The allocations to interstate and access services are based on the Commission's Part 36 and 69 rules. SWBT also showed in its direct case that if a historical trending approach were employed for forecasting the 1997-1998 tariff period BFP, the BFP revenue requirement would be approximately $83 million higher that the "bottoms-up" forecast submitted with SWBT's tariff transmittal. In their filed oppositions to SWBT's Direct Case, AT&T and MCI submit their own forecasts utilizing historical trending approaches. The forecasts submitted by AT&T and MCI, in each case, overstate the BFP revenue requirement. These overstatements are mainly caused by miscalculation of SWBT's historical rate of BFP growth and failing to adjust for the impact of OPEB for the tariff period.

States Telephone Association Petition for Extension of Time in 1997 Annual Access Tariff Filings (DA 97-1724) (rel. August 13, 1997).

[2] AT&T p. 9, Appendix B.

The table below summarizes the development of the BFP forecast using a historical trending approach.[3] The forecast amounts included in SWBT's direct case, AT&T Opposition, and MCI Opposition are shown.

Forecast of 1997-1998 BFP Revenue Requirement
Historical Trending Method

	SWBT (1)	AT&T(2)	MCI(3)
1. 1996 Rev. Req.	$1,077.0M	$1,079.1M	$1,079.1M
2. Average Growth Factor	1.09	1.10	1.106
3. Initial Estimate (L1*L2)	$1,175.3M	$1,191.8M	1,193.7M
4. One Time Adjustments			
A. OPEB 4310	($17.0M)	-	($2.2M)
B. OB&C Rule	$1.2M	-	$1.2M
C. Payphone Deregulation	$18.3M	$18.3M	$18.3M
5. 1997-1998 Forecast (L3+L4)	$1,177.8M	$1,212.1M	$1,211.1M
6. 1997-1998 Forecast Filed	$1,094.5M	$1,094.5M	$1,094.5M
7. Difference (L5-L6)	$83.3M	$117.6M	$116.6M

(1) See SWBT Direct Case, Page 24.
(2) See AT&T Appendix B, Page 4 of 6.
(3) See MCI Attachment A, Page 8. MCI also submitted two other forecasts for comparison purposes: 1) 3 Year Average Growth (94, 95, 96) - $1,220M and 2) Linear Projection - $1,185.8M. These forecasts result in differences from SWBT's filed forecast of $125.8M and $91.3M, respectively.

Comparing the data in the table shows differences in amounts, assuming a historical trending approach. The primary items are differences in the assumed average growth factors and AT&T's and MCI's failure to properly adjust for the one-time impact of the Other

[3] Similarly, AT&T overstates the BFP forecast for Pacific Bell and Nevada Bell by ignoring the OB&C and Account 4310 issues. AT&T overstates Pacific by $8.0 million (net of -$14.9 million for Account 4310 and $6.9 million for OB&C). AT&T overstates Nevada by $0.3 million.

Post Employment Benefits (OPEB) 4310 amount. AT&T also fails to adjust for Other Billing and Collection Expense impacts.

The growth rates used by AT&T and MCI do not reflect the normalized growth rate SWBT submitted in its direct case. The normalized average annual growth rate developed by SWBT in its direct case was approximately 6 percent or 9 percent restated on an 18 month basis (See SWBT, Page 23). AT&T and MCI employ annual growth rates of approximately 6.96 percent or 10 percent restated on an 18 month basis. The AT&T and MCI annual growth rates are overstated because they do not account for the impact of OPEB accounting implementation on expense growth. SWBT identified an expense impact of approximately $31.7M on SWBT's 1994 actual BFP revenue requirement. This impact was related to the initiation of modified accounting treatment for (OPEB) that increased the level of expenses. To calculate the normalized growth rate for 1994 over 1993, SWBT reduced the revenue requirement in 1994 to remove the one time increase that occurred in 1994. To calculate the normalized rate of growth for 1995 over 1994 SWBT did not adjust for OPEB since both years incorporated the modified accounting treatment for OPEB expenses. (See SWBT Direct Case, Worksheet 4.) By not accounting for the one time 1994 impact associated with OPEB implementation, AT&T and MCI have overstated the normalized annual growth rates.

As shown in the table above, AT&T and MCI did not properly adjust for the impact of including Account 4310 OPEB amounts in the BFP revenue requirements. The 1996 ARMIS actual BFP amounts only included a small portion of the 4310 liability. The Commission required, subsequent to the submission of ARMIS data, that all of the 4310 liability be included in interstate revenue requirements. Including all of the 4310 liability reduces SWBT's BFP revenue requirement by approximately $17.0 million, Pacific's BFP revenue requirement by $14.9 million, and Nevada's revenue requirement by $0.3 million. Since this amount is excluded from 1996 actuals, and not accounted for in the normalized growth rate, the impact must be added to the forecast. AT&T ignores this adjustment entirely. MCI only included the actual amount the SBC Companies reported in their ARMIS results. By not appropriately adjusting for this amount, AT&T and MCI have overstated their 1997 - 1998 tariff period BFP revenue requirements.

B. EUCL Demand Projections Should Not be Based on a Trend Analysis

On page 14 of AT&T's Opposition to Direct Cases, AT&T states that "LECs should calculate their BFP and EUCL line forecasts by constructing a trend-line based on their adjusted actual historical calendar-year data. For example, the 1997-1998 tariff year projections should be based on the actual adjusted historical calendar year BFP revenue requirements and EUCL volumes for 1991 to 1996." While the majority of AT&T's discussion relates to using trending for BFP revenue requirement, the statement that the same methodology should be used for EUCL line forecasts is troubling. AT&T provides no reason nor argument for replacing the current EUCL demand forecasting methodology. Line forecasts are particularly ill-suited to estimation by historical trending. Line forecasts are volatile in that they must reflect the state of the economy and the state of competition in a particular area. Using a 5 year historical trend fails to accurately predict the demand for lines. MCI acknowledges that the "LECs' line forecasts have been relatively accurate," and that "no revision of the LECs' line forecasts is required."[4] AT&T's suggestions to the contrary should be disregarded.

[4] MCI p. 7.

C. No True Up Is Necessary For Past BFP Forecasts

In addition to a request that the Commission require that LECs reduce their proposed 1997-98 CCL rates by $129M to reflect trend-line based BFP forecasts correcting a $438M BFP revenue requirement underforecast,[5] AT&T asks the Commission to require an additional adjustment to current EUCL and CCL rates to remove the impact of past forecasting deviations, alleged to be $271M, on a going-forward basis.[6] AT&T erroneously claims that such an adjustment is required to ensure that the CCL rate effect of past forecasting deviations from actual amounts are removed from current rates. There is no justification for such an adjustment, and, in fact, such an adjustment would need to be accompanied by Part 61 and Part 69 rule changes.

The fact that BFP revenue forecasts were not 100% accurate in past years should not result in any required adjustment to current rates. The EUCL and CCL rates that have been in effect for prior years have been deemed reasonable and are not under an accounting order or rate investigation. Common Line basket PCI and maximum allowable CCL rate calculations are based on total Common Line revenue and thus are self correcting. Therefore, an once an appropriate EUCL is set, the CCL rate in effect is at the appropriate level regardless of the prior EUCL rate and regardless of whether a prior year's forecast turns out not to be 100% accurate.

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[5] AT&T Opposition, fn. 21. The claimed CCL required reductions are $32.855M for SWBT, $8.348M for Pacific and $.058M for Nevada, reflecting claimed BFP underforecasting of $117.6M for SWBT, $31.8M for Pacific and $.16M for Nevada. (See Appendix B, pages 5 & 6).

[6] Id. page 15 The requested adjustments are $35.69M for SWBT, $25.452M for Pacific and $1.132M for Nevada. (See Appendix E page 1).

What AT&T is asking for is a refund of the difference between the revenue from the actual CCL rate in a tariff period and the revenue from what the CCL rate would have been based on a 100% perfect BFP forecast. No refund of these amounts is warranted because EUCL rates have always been required to be calculated based on a forecast of BFP and demand. Previous EUCL rates calculated in compliance with this requirement (along with the resulting CCL rates) have been allowed to become effective without suspension and investigation. The fact that these forecasts did not exactly match actual results is irrelevant. The reasonableness of a forecast must be determined when it is made.[7] AT&T has made no showing that prior year forecasts were unreasonable when they were made.[8]

The claim that such an adjustment will have no effect on the Common Line revenue stream is misleading. If the current CCL rates are reduced and EUCL rates are increased to reflect such an adjustment, it is true that no immediate total revenue change would occur. However, as AT&T observed, EUCL rates are recalculated each year based on a new forecast of cost and demand independent of the current EUCL rates. Therefore, this catch-up increase in EUCL rates and the related revenue would disappear in the next annual filing when new EUCL rates are calculated. The current price cap rules would treat this as a reduction in EUCL revenue and thus would allow an offsetting increase in CCL rates. There is no price cap mechanism that allows such an adjustment to become permanent.

[7] 47 U.S.C. 201.

[8] AT&T did raise the BFP forecast issue in Pacific's 1996 annual filing, claiming it departed from what AT&T considered an appropriate trend. Pacific successfully defended its forecast, and the Commission declined to investigate the issue. 1996 Annual Access Tariff Filing, 11 FCC Rcd 9564 (1996). As to all other SBC companies and years, even AT&T did not challenge the BFP forecasts and is therefore precluded from raising it now.

D. <u>No Change is Required to the Amounts Included in the Equal Access Amortization Adjustment</u>

AT&T admits that most LECs, including the SBC Companies, "properly calculated the amount of non-capitalized equal access costs that entered price caps".[9] However, AT&T claims that the failure to include a "R" value change adjustment and the adjustment made to reflect the change in the PCI result in an understatement of the amount of equal access costs removed.[10] AT&T claims that there is precedent for making "R" value adjustments to remove costs citing the Commission's requirement to use an "R" value adjustment for the removal of sharing.[11] AT&T also disputes SBC's argument that the imposition of a "R" value adjustment constitutes a rule change, claiming that a "R" value adjustment is simply an implementation detail.[12] AT&T asks the Commission to require LECs to increase the filed equal access exogenous cost amounts to reflect the change in the Local Switching category "R" value since January 1, 1991.[13]

With minor modification to the amortization-only cost calculation, the SBC Companies followed AT&T's proffered equal access cost removal calculation methodology detailed in its AT&T's CC Docket No. 96-262 Comments. AT&T's change of heart as to what is the proper equal access exogenous cost calculation is interesting. There AT&T said "AT&T

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[9] Id. page 18.
[10] Ibid. MCI also claims that a "R" value adjustment is necessary. See pages 10-11.
[11] Id. page 20, fn. 29.
[12] Id. pages 22-23
[13] Id. page 24, Appendix F.

calculated the amount of exogenous cost adjustment that is required for the removal of equal access conversion costs from the RBOCs' Traffic Sensitive PCIs as follows:" and "Equal access amortization-only revenue requirement for each RBOC was further adjusted by the same percentage that its Traffic Sensitive basket PCI has been adjusted since the inception of price caps." (Emphasis added).[14] This methodology contained no adjustment for revenue growth. AT&T offers no explanation as to why its previous methodology is now "flawed."

AT&T's claim that the previous "R" value adjustment requirement for the reversal of sharing is precedent for such an adjustment in this case is unpersuasive. As explained in the SBC Companies' Comments and Direct Case, there is a distinct difference between sharing reversals and the removal of costs with the most relevant precedent being the rejection of a "R" adjustment for the removal of OPEB costs from PCIs.[15] AT&T's claim that since a "R" value adjustment is simply an implementation detail and therefore does not constitute a rule change, is flawed. The existing exogenous cost rules were only recently interpreted to not permit a "R" adjustment for the removal of OPEB costs. Therefore, a rule change is necessary. Existing rules can't be interpreted and applied differently at different times under the form of an implementation detail as it suits the IXCs' whims.

E. Pacific Bell's Exclusion Of Invoice-Ready Message Volumes Is Reasonable When Message Volume Is Not A Significant Component Of The Cost Of Invoice-Ready Service.

Only AT&T commented on Pacific's OB&C exogenous adjustment. AT&T's declaration that the Commission's allocation rule applies to all third party billing services is not

[14] Comments of AT&T filed January 29, 1997, Appendix F

[15] SBC 1997 Annual Filing Comments, pages 8-10 & Direct Case, pages 41-42.

as unambiguous as it asserts. Moreover, AT&T's recalculation of the OB&C exogenous adjustment including invoice-ready messages is incorrect.

AT&T asserts that Pacific Bell should be required to reduce its OB&C exogenous costs by recalculating the exogenous adjustment to include invoice-ready messages. It argues that Pacific impermissibly excluded invoice-ready messages from the message counts used in the allocation, thus overstating its OB&C exogenous costs. AT&T, pages 29-32. Contrary to AT&T's assertion, the applicability of the Commission's rules is not crystal clear in this circumstance. Section 36.380(b) described the process for separating costs based on message volumes but the rule was not updated with the use of "invoice-ready" third party billing by the industry. In contrast to traditional message billing services, invoice-ready service does not focus on message volumes but on the number of bill pages provided by the carrier to be included with Pacific Bell's own bill. Thus, absent any clarification by the Commission, it was not unreasonable for Pacific to believe that the traditional concept of counting messages was inapplicable to a service where messages volumes were not a significant source of costs. Moreover, including such message volumes could unreasonably affect the allocation of OB&C costs.

Notwithstanding the ambiguity of the rule as applied to invoice-ready billing, if the Commission believes that Pacific Bell should include message volumes for invoice-ready services in its allocation of OB&C costs, it should reject AT&T's flawed recalculation of the exogenous adjustment. AT&T overlooks the fact that message volumes are only part of the allocator under the OB&C rules then in effect. Those rules required OB&C expense to be apportioned first to service categories (local, message toll, private line and directory) based on user counts. Then, the message toll service category is separated between state and interstate jurisdictions based on the relative number of toll messages. The increase in the percentage of interstate toll messages that results from including invoice-ready messages would only be applied against a portion of OB&C expense.[16] Therefore, AT&T overstates the impact of including invoice-ready messages. For illustrative purposes only, a calculation of the exogenous cost change when invoice-ready messages are included in the base is shown in Attachment 1. Accordingly, the exogenous cost change would be reduced by $2.2 million instead of $4.5 million that AT&T estimates.

The Commission can moot the need for Pacific's OB&C exogenous adjustment, however, by granting its *Petition For Expedited Waiver*.[17] As previously stated, upon the Commission's grant of the *Petition*, Pacific Bell will withdraw its request for the OB&C exogenous adjustment and adjust its rates accordingly. *Petition*, page 6, n. 9. Pacific Bell urges the Commission to grant its Petition which will mitigate the unintended and inordinately harmful

[16] As shown on Attachment 1, line 11, the message toll category is only 40% of the total OB&C expense in 1995.

[17] Pacific Bell's *Petition For Expedited Waiver*, filed June 13, 1997, AAD 97-77 ("*Petition*"). No objections were submitted about Pacific Bell's Petition in response to the Commission's Public Notice, DA 97-1359, released June 30, 1997.

effects of the new OB&C cost allocation factor. An exogenous adjustment for OB&C costs will be unnecessary with the Commission's grant of Pacific's *Petition.*

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY
PACIFIC BELL
NEVADA BELL

Nancy Woolf

ROBERT M. LYNCH
DURWARD D. DUPRE

One Bell Center, Room 3524
St. Louis, MO 63101
(314) 235-2513

NANCY C. WOOLF

140 New Montgomery Street, Room 1522A
San Francisco, California 94105
(415) 542-7657

Their Attorneys

Date: September 23, 1997

Pacific Bell - Direct Case Rebuttal
Illustrative Calculation of OB&C Exogenous Cost Change
Including Invoice-Ready Messages in Base - 1995

Line	Description	Source	Amount
1	Pct OB&C Expense Assigned Interstate - Old Rules	OBC-8, YEAR, A-8, Ln 98	6.51%
2	Pct OB&C Expense Assigned Interstate - New Rules	Fixed one-third assignment	33.00%
3	Difference: New Rules - Old Rules	Ln 2 - Ln 1	26.49%
4	Interstate Toll Messages	OBC-3	177,736,955
5	Total Toll & Telegram Messages	OBC-3	4,887,241,886
6	Percent Interstate Toll Messages	Ln 4/Ln 5	3.64%
7	Estimated Interstate Invoice-Ready Toll Messages	See Notes	802,788,087
8	Total Invoice-Ready Toll Messages	OBC-4	1,703,851,198
9	Percent Interstate Toll Messages including Invoice-Ready	(Ln 4 + Ln 7)/(Ln 5 + Ln 8)	14.88%
10	Change in Interstate Percent Allocation by including Invoice-Ready	Ln 9 - Ln 6	11.24%
11	Percent Toll Service Category/Total OB&C Expense	OBC-8, YEAR, A-8, Ln 95/Ln 98	40.72%
12	Change in Interstate OBC Percentage by including Invoice-Ready	Ln 10 * Ln 11	4.58%
13	Pct OB&C Expense Assigned Interstate - Old Rules with Invoice-Ready	Ln 1 + Ln 12	11.08%
14	Pct OB&C Expense Assigned Interstate - New Rules	Fixed one-third assignment	33.00%
15	Difference: New Rules - Old Rules with Invoice-Ready	Ln 14 - Ln 13	21.92%
16	Rto: Percent Change with Invoice-Ready/Percent Change without Invoice-Ready	Ln 15 / Ln 3	82.73%
17	Estimated Exogenous Cost Shifts from OB&C Rule Change	Workpaper IIC-11	12,998,678
18	Estimated Exogenous Cost Shifts from OB&C Rule Change with Invoice-Ready Messages in Base	Ln 16 * Ln 17	10,753,206
19	**Estimated Impact of Invoice-Ready Messages Included in Base 1995 on Exogenous Cost Shift**	Ln 18 - Ln 17	**(2,245,472)**

Notes:

Sources identified as OBC-X were filed as part of Direct Case of SBC Companies on September 2, 1997.
Interstate Invoice-Ready messages are not readily available for 1996. For estimation purposes, the percent interstate for 1996 Invoice-Ready messages shown on OBC-4 was applied against the total Invoice-Ready volumes in 1995.
Workpaper IIC-11 was contained in OBC-8, filed as noted above.

CERTIFICATE OF SERVICE

I, Katie M. Turner, hereby certify that the foregoing, "REBUTTAL TO OPPOSITIONS ON DIRECT CASE OF THE SBC COMPANIES" in CC Docket No.97-149 has been filed this 24th day of September, 1997 to the Parties of Record.

Katie M. Turner

Katie M. Turner

September 24, 1997

MCI TELECOMMUNICATIONS CORPORATION
ALAN BUZACOTT
REGULATORY ANALYST
1801 PENNSYLVANIA AVENUE NW
WASHINGTON DC 20006

ITS INC
1231 20TH STREET
GROUND FLOOR
WASHINGTON DC 20036

MARK C ROSENBLUM
PETER H JACOBY
JUDY SELLO
AT&T CORP
ROOM 3244I1
295 NORTH MAPLE AVENUE
BASKING RIDGE NJ 07920

COMPETITIVE PRICING DIVISION (2 COPIES)
COMMON CARRIER BUREAU
ROOM 518
1919 M STREET N W
WASHINGTON DC 20554

REGINA M KEENEY
CHIEF COMMON CARRIER BUREAU
FEDERAL COMMUNICATIONS COMMISSION
ROOM 500
1919 M STREET NW
WASHINGTON DC 20554